

Message Text

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PAGE 01 MEXICO 04399 200152 Z

64

ACTION EB-11

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E. O. 11652: N/ A

TAGS: EFIN, MX

SUBJ: MEXICAN INTEREST RATES RISE

REF: MEXICO 4131, 4314

1. EFFECTIVE JUNE 18 INTEREST RATES ON NEWLY- ISSUED FIXED- INCOME SECURITIES, INCLUDING MORTGAGE BONDS, INCREASED BY ONE PERCENT OR MORE, ACCORDING TO THE BANCO DE MEXICO(CENTRAL BANK) THE NEW RATES

DO NOT AFFECT FIXED- INCOME SECURITIES SOLD BEFORE JUNE 18. COPIES OF CENTRAL BANK CIRCULARS AUTHORIZING INCREASES BEING POUCHED DEPARTMENT.

2. INTEREST RATE RISES ARE GENERALLY IN THE ONE TO TWO PERCENT RANGE (E. G. 1.05-1.1 PERCENT ON MORTGAGE BONDS, 1.19 PERCENT ON SOME FINANCIERA BONDS, 2-2.2 PERCENT ON SOME PROMISSORY NOTES) WHICH AFTER TAXES GIVE A NET INCREASE TO THE INVESTOR OF ONE PERCENT OR SO. A NEW SIX- MONTH TIME DEPOSIT OF A MINIMUM 250,000 PESOS (20,000 DOLLARS) WAS ALSO AUTHORIZED WHICH PAYS A NET INTEREST OF 9.25 PERCENT. THIS IS MADE POSSIBLE BY ESTABLISHING A GROSS RATE OF 9 PERCENT, AND PERMITTING FINANCIERAS TO PROVIDE AN INCREMENTAL INCREASE IN THE INTEREST RATE SUFFICIENT TO NET 0.25 PERCENT, AFTER TAXES.

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PAGE 02 MEXICO 04399 200152 Z

3. RECOGNIZING THE POSSIBLE ADVERSE EFFECTS ON CREDIT COSTS WHICH THE NEW REGULATIONS COULD CAUSE, THE CENTRAL BANK PROHIBITED ANY SURCHARGES TO PRESENT BORROWERS AND HAS PREPARED A COMPLICATED FORMULA WHICH LIMITS THE INCREASES IN THE COST OF MONEY TO BORROWERS IN THE FUTURE. THIS FORMULA IS SPELLED OUT IN CIRCULAR 1759/73, WHICH IS ONE OF THOSE BEING POUCHED. PENALTIES ARE PROVIDED IN CASES OF NON- COMPLIANCE. THE CENTRAL BANK IS ALSO PREPARED TO OFFER PARTIAL COMPENSATION TO OFFSET THE INCREASED COST OF MONEY TO FINANCIERAS (SEE CIRCULAR 1757/73). COMPENSATION WILL BE ACCOMPLISHED BY THE APPLICATION OF A FORMULA IN CIRCULAR 1757/73, AND WILL BE EFFECTED ESSENTIALLY THROUGH ADJUSTING INTEREST ON REQUIRED RESERVE DEPOSITS OF FINANCIAL INSTITUTIONS IN THE CENTRAL BANK, BASED ON INFORMATION ON INCREASED COSTS SUPPLIED TO THE CENTRAL BANK BY THE FINANCIERAS.

4. THE CENTRAL BANK HAS INDICATED THAT IT IS ALSO PREPARED TO OFFER PARTIAL COMPENSATION TO MORTGAGE BANKS FOR THE INCREASED COST OF MONEY TO THEM. THIS PARTIAL COMPENSATION WILL BE BASED ON A FORMULA IN CURCULAR 1760/73 BEING TRANSMITTED DEPARTMENT. HOWEVER, MORTGAGE BANKS ARE PROHIBITED FROM IMPOSING SUCHARGES ON EXISTING MORTGAGE LOANS, AND ARE DIRECTED TO CONTINUE TO CHARGE PRE- JUNE 18 INTEREST RATES ON ALL MORTGAGE LOANS DEEMED TO BE IN THE " SOCIAL INTEREST." INCREASE OF UP TO ONE PERCENT ON OTHER NEW MORTGAGE LOANS IS AUTHORIZED AS A TEMPORARY MEASURE. EACH MORTGAGE INSTITUTION WILL ALSO BE REQUIRED TO SUPPLY THE CENTRAL BANK AND THE NATIONAL BANKING COMMISSION WITH DETAILED DATA ON ALL CREDIT OPERATIONS IN ORDER TO FACILITATE THE DETERMINATION OF PARTIAL COMPENSATION DUE.

5. IN MAKING THE ANNOUNCEMENT OF NEW INTEREST RATES, BANCO DE MEXICO STRESSED THAT MOVE CAME ONLY AFTER DETAILED DISCUSSION WITH MEXICAN BANKERS ASSOCIATION (WHICH REPRESENTS PRIVATE BANKS AND FINANCIERAS).

6. COMMENT: EMB FIN OFF DISCUSSED NEW INTEREST RATES WITH TREASURY OFFICIAL TODAY (JUNE 19) AND ELICITED THE FOLLOWING COMMENTS:
(A) INCREASING EURO- DOLLAR RATES HAD FORCED MEXICO TO BECOME MORE COMPETITIVE, ESPECIALLY BECAUSE OF TEMPORARY UNCERTAINTY CREATED BY MARGAIN DEPARTURE WHICH HAD RESULTED IN SOME WITHDRAWALS OF DEPOSITS
(B) GOM HOPES TO GET MORE DOMESTIC SAVINGS " OUT OF THE MATTERESS" AND INTO FINANCIERAS OR MORTGAGE BANKS; (C) MAIN TREASURY CONCERN IS EFFECT OF NEW REGULATIONS ON LENDING RATES, AND WHETHER CENTRAL

UNCLASSIFIED

PAGE 03 MEXICO 04399 200152 Z

BANK MEASURES OUTLINED CIRCULARS WILL PROVE ADEQUATE TO HOLD DOWN

COST OF MONEY TO BORROWERS.

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